101-05434/

British Columbia Lottery Corporation

Fiscal 2000/2001

Business Plan

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1. EXECUTIVE SUMMARY

A. INTRODUCTION

In last year's Business Plan, Fiscal 1999/00 was expected to be "another year of record growth, challenge, controversy, opportunity and success as the Corporation celebrated 25 years of lotteries in British Columbia." The year, for the most part, met all of these expectations.

Fiscal 1999/00 was a year of significant achievement, success and continued controversy, highlighted by:

- Total sales revenues are projected at $1.4 billion, an increase of $140 million or 11% over the previous year;
- Total net income is projected at $531.0 million, an increase of $75.0 million or 16.4% over the previous year;
- Two community casinos were successfully relocated and the first destination casino, the Royal City Star riverboat casino in New Westminster was opened. These new standard, full service casinos contributed to total casino revenues of $445 million, up $137 million or 44% over the previous year;
- The Corporation celebrated the 25th Anniversary of lotteries in British Columbia with over 60 community and regional events involving thousands of players, retailers and the public at large, who both celebrated and were reminded of the overall benefits of lotteries and gaming revenues to their communities;
- In its second year, the "Hey Wagon Community Stage" was part of 24 community festivals and events - raising the Corporation's profile as a community minded corporation;
- The Corporation's public image, despite some gaming controversies during the year and a number of years of decline, changed direction and improved by year end;
- The Corporation successfully planned and executed its Y2K project; and
- The retirement of the Corporation's long-term CEO and the selection by the Board, following an open search process, of the existing Vice-President to assume the CEO leadership position.

On the gaming policy front, Fiscal 1999/00 was a year of significant events, continued controversies and a significant change in direction, including:

- From a direction of moderate gaming expansion under strong provincial legislative authority as envisioned in the White Paper and the proposed Gaming Control Act, the direction and policy of the Government changed to "ending gaming expansion" and providing significant authority and involvement to both municipalities and charities through a Memorandum of Agreement signed in June, 1999;
- Controversy over the selection process of one of the destination casinos created heightened awareness and negative public opinion in respect to gaming expansion in the province;
- The commissioning and release of the Meekison report recommendations for a new gaming model, including the establishment of a new Gaming Control Commission with overall responsibility for regulating gaming and approving casino and bingo relocations will have a fundamental impact on the Corporation's mandate; and

- The introduction of the Workers Compensation Board (WCB) smoking regulations has impacted sales negatively by up to 10% in the casino, bingo and social gaming (bars and pubs) networks.

Since March 1998, sales and net income have increased by 48% and 82% respectively, Fiscal 2000/01 will be a year of stabilization and marginal growth.

B. THE YEAR AHEAD (FISCAL 2000/2001)

A Mature Lottery Market

The Lottery Gaming market has matured over a number of years. To sustain and grow sales in the lottery market, the Corporation will evaluate changes to its distribution channels and consider product enhancements in fiscal 2000/01.

Time-line for Casino Implementation and Relocation

The time-line for casino relocations and implementation is lengthy.

The Meekison Report recommended the establishment of a Gaming Control Commission with the responsibility for the review and approval of community casino relocations and upgrades. The Corporation must play a meaningful role in the process to ensure the realization of revenue potential in Casino Gaming.

For destination casinos, only three of the eight proponents who were awarded Approvals-In-Principle have been able to complete a development contract with the Corporation.

Stakeholder Relations

With the Government's commitment for a greater role in gaming decisions for municipalities and charities, more effective and improved stakeholder relations becomes of significant importance for the Corporation.

Public Image

Following Government's announcement of moderate expansion of gaming in 1994, the Corporation's public image has declined. In Fiscal 1999/00 the Corporation's public image took a positive turn with growing support and declining unfavourable impressions. While this is encouraging, more effort is required for the Corporation to return to the level of support it enjoyed in previous years.

WCB Smoking Regulations

The WCB Smoking Regulations appear to have had an impact on the Corporation's revenues in Casino gaming, Bingo gaming and the social lottery network. The Corporation will seek new revenue initiatives to offset the decline in sales.

New Direction and Restructured Organization

Many changes have taken place since the development of the last Strategic Plan. The Corporation's business and its surrounding environment is much more complex. While many incremental changes have been made to meet the needs of the changing environment over the past few years, a formal in-depth review of the Corporation's directions and strategies is required. A new Strategic Plan, under the Board's direction and leadership, will be developed.

The organization, at the same time, will re-align its structure and resources to ensure its continued effectiveness.

Future Responsibilities

In "The Meekison Report", significant changes to the gaming model in British Columbia are recommended, including the establishment of a new Gaming Control Commission which would be responsible for overall gaming regulation and major changes including the approval of casino and bingo relocations.

Government has announced its plans to introduce comprehensive gaming legislation based upon the Meekison recommendations in the next session of the legislature.

These recommendations, if implemented, may have a significant impact on the role and responsibilities of the Corporation.

C. KEY ISSUES

The Fiscal 2000/01 Business Plan identifies 13 key issues that the Corporation will focus its attention and resources on. These are:

I. Corporate

1. To secure the Corporation's position for future growth;
2. To establish a clear Corporate direction for the future;
3. To ensure that the Corporation is effectively organized to meet its present and future business needs;
4. To improve the Corporation's image, public approval ratings and stakeholder relationships;
5. To develop and strengthen employee satisfaction and corporate culture;

II. Lottery

6. To increase lottery sales and profits;
7. To select a new On-line Gaming System to meet the Corporation's future needs;
8. To improve the Corporation's relationship with its social gaming network retailers;
9. To test the expansion of the lottery retail network;

III. Casino Gaming

10. To increase casino revenues and profits within the current Government policy framework;
11. To establish long-term contracts and improved business relationships with community casino service providers;
12. To continue to upgrade standards of performance for casino operations;

IV. Bingo

13. To prepare for the possible transfer of current responsibilities for electronic bingo to another agency while at the same time continuing to develop the market.

D. FISCAL 2000/2001 GOALS

Total revenues are projected at $1.43 billion, an increase of 2.1% over Fiscal 1999/00. Net income is projected to increase by 2.0% to $541.6 million. However, it is important to note that while the Corporation's net income is projected to increase by $10.6 million in Fiscal 2000/01, the total contribution to government for health care and general revenue (consolidated revenue fund) is projected to decrease by almost $24 million due to increased

commitments to fund the Government's guarantee to charities and Municipal revenue sharing agreements.

Lottery revenues are projected to increase by 2.2% to $927 million. This is an aggressive growth projection for a mature market and is based upon a number of key decisions for product and retail enhancements.

Casino revenues are projected to be relatively stable at $450 million. While no significant growth is projected, an aggressive approach to revitalize the slot machine product mix, the opening of a second destination casino and increased marketing expenditures will offset the negative impact of the WCB smoking regulations.

Bingo revenues are projected to increase by $4.0 million or 8% primarily through the implementation of five new Starship Bingo electronic sites. While there is much discussion on the future of the Corporation's role for electronic bingo, the approach being taken by the Corporation is to continue to develop the electronic bingo marketplace until such time as a decision on its mandate and role for electronic bingo is finalized.

While projecting marginal growth in sales and profits, the Corporation is fully aware of the need to continue to provide superior services to its players and retailers while at the same time prudently managing its operating costs. Operating costs are projected to be $83.4 million plus an additional $1.9 million for special project costs. This combined total of $85.3 million is consistent with previous operating cost to sales ratios of under 6%.

It will also be critical for the Corporation to ensure its position for future growth while at the same time, contributing to the stabilization of the gaming marketplace in the province through the introduction of comprehensive new gaming legislation.

After a downward trend in fiscal 1999/00, the Corporation achieved improvement in its image and public approval ratings. The goal for Fiscal 2000/01 will be to continue to improve on this upward trend by reinforcing and building on the Corporation's position as a responsible and community-minded organization.

Overall, Fiscal 2000/01 is forecast to be another challenging year with opportunities for some growth and new marketing initiatives.

2. CORPORATE OVERVIEW

A. CORPORATE MANDATE AND STRUCTURE

Pursuant to amendments to the Criminal Code of Canada in 1969 and enabling legislation, the British Columbia Lottery Corporation was incorporated on October 25, 1984 and is continued under the Lottery Corporation Act of British Columbia (1985). Prior to 1985, the Province of British Columbia was a partner in the Western Canada Lottery Foundation.

As an Agent of the Crown, the Province has designated the Corporation as the authority to conduct and manage lottery schemes within British Columbia, including the marketing of nationwide and regional lottery games in association with other provinces of Canada.

Under the current government gaming policy announced in March, 1997 and subsequent government decisions, the Corporation's responsibilities include the following:

- The conduct and management of lottery gaming including both traditional lotteries and social gaming products;
- The conduct and management of casino gaming including both community casinos (formerly charitable casinos) and destination casinos; and
- The conduct and management of electronic and linked bingo.

With its headquarters in Kamloops, a marketing office in Richmond and a branch office in Victoria, the Corporation employs a full time equivalent (FTE) of 600 people. This includes employees based in its three offices, as well as Territory Sales Managers, Gaming Control Managers, Slot Technicians and Bingo Systems Operators who are located throughout the province to serve the Corporation's retailers and service providers.

The Corporation is currently responsible to Honourable Joy MacPhail, Minister of Labour, through a Board of Directors appointed by Government. The current Board is comprised of eight members from major regions of the Province.

B. BUSINESS OVERVIEW

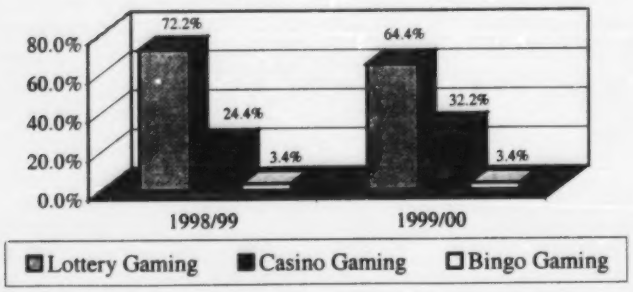
The Corporation is engaged in three gaming business segments:

- Lottery gaming;
- Casino gaming; and
- Electronic bingo gaming.

The projected total sales for fiscal 2000/01 are $1.43 billion. Lottery gaming continues to account for the largest portion of sales with $927 million or nearly 65% of the total. However, the following points are worth noting:

- In keeping with other lottery jurisdictions, lottery sales are recorded on gross sales, while casino sales are net wins (net after prizes); and
- Lottery gaming is a mature business with limited growth while casino gaming has much greater growth potential. Over the past year, casino gaming has increased from 24.4% of total sales to over 32.2% as shown in Figure 1.

Figure 1: Share of Sales by Gaming Segment



The following provides an overview of these three gaming segments.

1. Lottery Gaming

Lottery gaming is the Corporation's most established and popular business with a participation rate of 70% among BC adults.

a. Products

The Corporation offers a variety of lottery gaming products including:

- On-line games offered jointly with other Canadian lottery jurisdictions: Lotto 6/49 and Super 7;
- On-line games available only in BC: Extra, BC/49 and Daily 3;
- A variety of Off-line games including $1 - $5 Scratch & Win tickets, Special Event and Breakopen;
- Club Keno; and
- Sports Action.

b. Distribution Channels

Lottery gaming products are sold through three channels:

- A retail network of Lottery Ticket Centres (LTCs);
- A social gaming retailer network; and
- Mail subscriptions.

LTC Network

LTCs comprise the Corporation's largest retailer network of 2,400 outlets (2,450 On-line terminals) located in nearly every community in British Columbia. The majority of LTCs are small retail businesses such as convenience and confectionery stores. There are also some larger organizations (Corporate Accounts) in this network, including retail store chains, drug stores and large supermarkets. The Corporation also owns lottery kiosks in shopping malls through its Retail Sales Division. The following table provides a breakdown of the types of retailers in the network and their contribution in sales.

	No. of Locations	% of Total Locations	Projected 2000/01 Sales	% of Total Sales
Corporate Accounts	850	35%	$ 190 M	27%
Retail Sales Division	127	5%	137 M	19%
Others	1,423	60%	386 M	54%
Total	2,400	100%	$ 713 M	100%

Social Gaming Network

The social gaming network consists of approximately 1,170 age-restricted bars and pubs, located throughout the province. In fiscal 1999/00 the Corporation formed a retailer council to seek input and consultation with this network.

Just over 700 social gaming retailers sell two of the products offered by the Corporation - Club Keno and Breakopen - and are equipped with On-line terminals and winning number displays for Club Keno. The other 440 sell only Breakopen products, primarily through vending machines.

The Corporation provides social gaming retailers with gaming equipment and products. It also provides them with a 5% commission plus incentives of up to an additional 3% for Club Keno, and between 13% for Breakopen.

Subscription

In addition to the LTC and social gaming networks, Lotto 6/49, BC/49 and Extra may also be purchased through a subscription service.

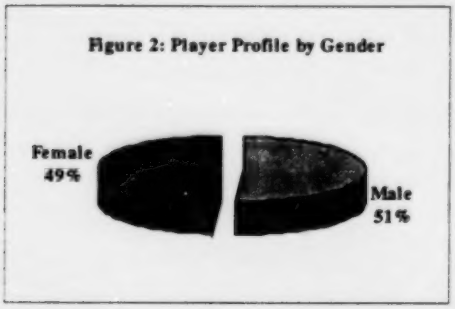
c. Players

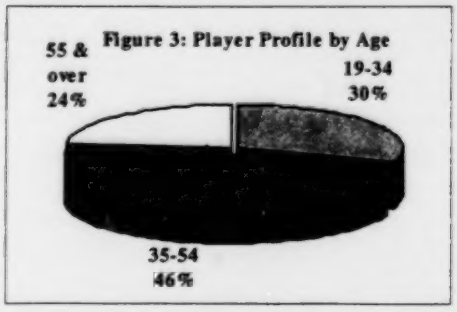
As traditional lottery products are aimed at the mass market, the Corporation has set its goal to have a player base that is as broad as British Columbia's population base, and, it is.

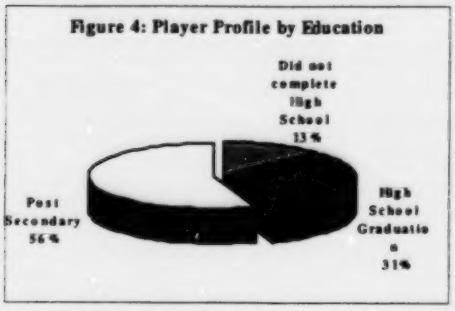
Over the years, the lottery player profile has had minimal change:

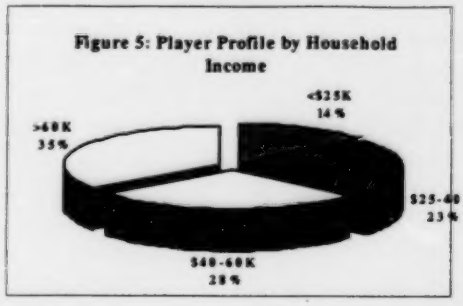
- Nearly 70% of adults aged 19 and over participate in BCLC games;
- Lottery play is relatively equal between men and women;
- 70% of lottery players are over the age of 35;
- 56% of lottery players have at least some post-secondary education; and
- 63% of lottery players are from households with an annual income in excess of $40,000.

Figures 2 to 5 below provide a graphic overview of the player profiles.









2. Casino Gaming

a. Portfolio

The Corporation currently operates 16 community casinos and one destination casino.

- **Community Casinos:** These are the former charitable casinos with extended hours (up to 18 hours per day between 10:00 am and 4:00 am, seven days a week), higher table betting limits (up to $500) and the addition of slot machines (up to 300 per casino); and
- **Destination Casinos:** These are new casinos approved in principle by government through an RFP process. The destination casinos have the same maximum allowable capacity as the community casinos (up to 30 tables and 300 slot machines and bet limits up to $500 for table games).

Currently, eight of the 16 community casinos offer slot machines. All casinos offer a variety of table games including Blackjack, Mini Baccarat, Roulette, Sic Bo, and various Poker style games. Government policy prohibits VLTs in BC.

b. The Casino Operating Model

The Corporation contracts for facility and operational services for the day-to-day operation of the casinos.

To ensure that the Corporation fulfills its conduct and management role in casinos, it retains the following responsibilities:

- Ownership of all tables and slot machines;
- Selection and approval of games;
- Setting bet limits and operating hours;

- Computerized central monitoring and management of slot machines, including start-up and shut-down of all slot machines;
- Establishing operating standards and procedures; and
- Approval of all advertising and promotion programs.

In addition, the Corporation assigns on-site Gaming Control Managers at each casino to fulfill its conduct and management responsibilities, to supervise cash counts and to ensure compliance to standard operating procedures. The Corporation also provides the personnel for maintenance services for slot machines.

c. Future Casino Facilities

On June 17, 1999 the Honourable Mike Farnworth, Minister Responsible for Gaming, announced an end to the expansion of gaming in British Columbia.

With this announcement, the expansion of casino facilities are limited to the following:

- The relocation of existing community casinos to facilities that meet the Corporation's standards. The relocation may be within the same municipality or to another nearby municipality that will accept a full service casino (30 tables and 300 slots). The relocation must conform to a process recommended in the recently released Meekison Report; and
- The implementation of destination casinos that are approved in principle in 1998. In total, there are eight casinos approved in principle. The Royal City Star opened in October, 1999 and two others that have received final approval are Casino of the Rockies (Cranbrook) and Lake City Casino Ltd. (Penticton). Lake City Casino (Penticton) is scheduled to open in May 2000.

d. Casino Player Profiles

Casino gaming is a popular form of adult entertainment.

Based on Canadian casino surveys and a North American-wide study conducted by Angus Reid in 1996, 18% of Canada's adult population visited casinos in a 12 month period, up 3% from 1995. In British Columbia, 13% of the adult population visited a casino in 1996, up from 11% in 1995. In Regina, this number has reached a high of 60%.

These surveys also reached similar findings on casino player profiles: they resemble the make up of the general population except that their income levels are significantly higher.

A 1997 survey by Harrah's Entertainment, Inc. produced the following profiles:

	Traditional Destination Player	New Destination Player	United States Population
Median Household Income	$44,000	$39,000	$32,000
Male/Female Ratio	52/48	50/50	49/51
Median Age	49	47	48
Education			
No College	48%	50%	51%
Some College	23%	22%	22%
College Graduate	19%	18%	17%
Post Graduate	10%	9%	10%
Employment			
White Collar	43%	41%	41%
Blue Collar	27%	29%	28%
Other	30%	30%	31%

3. Bingo Gaming

a. Overview

The Corporation has developed and operated electronic bingo and has been the sole distributor of bingo paper in the province for a number of years. BCLC has operated electronic bingo at one hall in the lower mainland (Planet Bingo) since 1988. With the announcement of Government's new gaming policy in March, 1997 BCLC expanded its electronic bingo operations.

The Corporation's current bingo operations consist of:

- Eight Starship Bingo Sites: a console-based electronic bingo offered in bingo halls;
- Eighty-five SuperStar Bingo sites: a game that links bingo halls for a large daily jackpot game; and
- Supply bingo paper for all bingo halls in British Columbia.

b. Operating Model

The Corporation contracts for facility and operational services for the operation of linked and electronic bingo. The same companies also provide service to charities for the operation of paper bingo gaming.

The Corporation provides the computer system and furnishings, as well as on-site employees to operate and control the electronic bingo system.

Bingo operators are responsible for providing the required space within their facility and for providing all necessary customer services, including sales and cash handling. In return for these services, the Corporation pays operators a commission on electronic bingo sales.

A similar operating model exists for linked bingo, with the exception that there is no BCLC employee on-site at each bingo hall. The SuperStar Bingo game is controlled by a central computer system located in the Corporation's Kamloops headquarters.

C. REVENUE CONTRIBUTIONS TO THE PROVINCE

The Corporation has been a consistent and significant revenue contributor to the Government of British Columbia. The projected gross revenue for Fiscal 1999/00 is $1.4 billion, an increase of 11% over 1998/99. Net income is projected at $531.0 million, an increase of more than 16% over the previous year. Of this total, $521.8 million will be contributed directly to the Government to fund health care and for general revenue purposes. The division of the gaming dollar is illustrated in Figure 6.

Figure 6: The Gaming Dollar

	Lottery	Casino	Bingo	Total
Prizes	53.0%	0.0%	55.4%	36.5%
Commissions	6.9%	35.0%	12.8%	15.9%
Ticket Printing	1.3%	0.0%	1.8%	.9%
Operating Expenses	6.0%	5.5%	9.2%	5.9%
Amortization	.3%	2.6%	9.9%	1.4%
GST	1.2%	2.9%	2.5%	1.8%
Other Income	<.4%>	0.0%	0.0%	(.3%)
Net Income	31.7%	54.0%	8.4%	37.9%
	100.0%	100.0%	100.0%	100.0%

Note: Casino sales are reported net of prizes. Actual prizes are estimated at 92%.

During the last 5 years, the Corporation has contributed more than $2.0 billion to government revenues.

The Corporation remits its weekly net revenues directly to Government. For many years, lottery funds administered and distributed by the Government of British Columbia have been used in a variety of ways to improve the quality of life in British Columbia by supporting a wide range of Government and community initiatives in sport, recreation, culture, heritage and health. Today, up to 50% of lottery revenue is dedicated to health care and the remainder goes to general revenue.

While the Corporation generates significant revenues for Government, British Columbia has the lowest per capita gaming revenue of any province in Canada.

Canadian Per Capita Profit Projections
Adult Population
Fiscal 1999/00

Province	Per Capita Profit
Alberta	$430
Saskatchewan	$328
Manitoba	$293
Ontario	$375
Quebec	$260
Nova Scotia	$202
British Columbia	$171
Benchmark Average	$335

D. ADDRESSING THE ISSUE OF SOCIAL AND CORPORATE RESPONSIBILITIES

The Corporation recognizes the importance of its social and corporate responsibilities, in addition to its business responsibilities.

While gaming policy, problem gambling and other social responsibilities associated with gaming are outside of the Corporation's formal mandate, the Corporation makes a determined effort to assist other government agencies to address these issues. The Corporation works closely with Gaming Policy Secretariat, the Ministry for Children and Families and other government agencies and contributes funding for problem gambling programs administered by the Ministry for Children and Families. In Fiscal 1999/00, the Corporation's contribution to funds for gaming policy and gaming related social programs totaled $2 million.

3. MISSION AND CORPORATE OBJECTIVES

A. INTRODUCTION

In 1993, the Corporation formally adopted a Mission Statement and developed a set of Corporate Objectives to provide a direction for the operations of the Corporation. This Mission Statement and related Corporate Objectives became key elements in the Corporation's 1994-1999 Strategic Plan.

The Mission Statement and Corporate Objectives reflect the Corporation's principle mandate to:

- Generate, through Government controlled gaming, substantial financial and economic benefits for the Government to improve the life of British Columbians; and
- On behalf of the Government and the people of British Columbia, provide top quality gaming entertainment to the public in a socially responsible manner.

The Corporation's fiscal objective of maximizing gaming revenue to Government is balanced by its effort to be a good corporate citizen in accordance with government gaming policies and social responsibilities. With the end of gaming expansion as announced in July, 1999 by the Honourable Mike Farnworth, the Corporation will strive to excel in its responsibilities within the existing gaming policy framework in British Columbia.

The Corporation will revisit its Mission Statement and Objectives through the development of a new Strategic Plan. In the meantime, the current Mission Statement and Objectives will continue to be utilized for directing the 2000/01 Business Plan.

B. MISSION STATEMENT

As the major advocate on gaming policies and the principal operational agency of commercial gaming within the jurisdiction of British Columbia, the Corporation will contribute significantly to Government revenues and economic growth by providing top quality gaming entertainment to the public in a socially responsible manner.

C. CORPORATE OBJECTIVES

The Corporation's six objectives are:

1. To maximize gaming revenue to the Government of British Columbia;
2. To operate the Corporation in the most effective and efficient manner possible;
3. To be recognized as a responsible, trustworthy and progressive Corporation and to achieve strong and broad based public support of the Corporation's mandate;
4. To have the best retailer networks in the province of British Columbia to serve and meet the needs of our players;
5. To foster an organizational climate that welcomes and values diversity within the organization and through the services it provides to the public and to its retailers; and
6. To seek to ensure that every employee is valued, professionally fulfilled and feels that they play an integral role in the success of the Corporation.

4. SITUATION ANALYSIS

A. A YEAR OF SIGNIFICANT EVENTS

1999/00 was a year of many significant events that had a profound impact on the Corporation's operations.

1. Full Year of Casino Operation

1999/00 marked the first full year of casino operation since the Corporation assumed responsibility for both table games and slot machines.

During this year, the first destination casino, the Royal City Star opened and the Gateway Casino in Burnaby was relocated to a new facility. The relocation of the Lake City Casino in Kelowna was also completed during the year.

Net win from casino operations is projected to increase from $308 million in 1998/99 to $445 million.

As shown in Table 2, casino gaming is becoming an increasingly greater source of revenue for the Corporation.

Table 2: Revenue by Gaming Segment

	1997/98 Actual		1998/99 Actual		1999/00 Projection	
	$M	%	$M	%	$M	%
Gross Sales - Lottery	883	94%	911	72.2%	907	64.7%
Net Win – Casino Gaming	41	4%	308	24.4%	445	31.8%
Net Revenue - Bingo	18	2%	43	3.4%	49	3.5%
Total Net Revenue	942	100%	1,262	100.0%	1,401	100.0%

2. Memorandum of Agreement with Municipalities and Charities

On June 17, 1999 the Government of British Columbia signed a Memorandum of Agreement (MOA) with the Union of BC Municipalities (UBCM) and resolved the long standing policy dispute with municipalities. Terms of this MOA include:

- The right of local governments to accept or reject gaming facilities within their boundaries;
- The right of local governments to approve the introduction of slot machines;
- A share of 10% of the proceeds from gaming within local Government boundaries; and
- The affirmations of local Governments' land use (zoning) authority.

The Government of British Columbia also signed a Memorandum of Agreement with the BC Association for Charitable Gaming (BCACG) that included the following terms:

- Affirmation of the role of licensed charities as the sole beneficiary of bingo gaming including both paper and electronic bingo;
- Affirmation of the charities' exclusive domain over all bingo activities, subject to licensing by the BC Gaming Commission, and subject to the provisions of the federal Criminal Code; and
- Government of British Columbia will pursue changes to the Federal Criminal Code to permit the broad use of technology in bingos by licensed charities.

3. Government Announced an End to Gaming Expansion

In July, the Honourable Mike Farnworth, Minister Responsible for Gaming, announced an end to gaming expansion and restricted gaming facilities to proposals approved in principle in 1998.

4. Independent Gaming Advisor on Relocation of Gaming Facilities

On July 19, 1999 Minister Farnworth appointed Professor Peter Meekison to act as an Independent Advisor to recommend a process for the relocation of existing gaming facilities.

Professor Meekison completed his review and submitted his report on January 31, 2000. Some of his recommendations included:

- That the gaming legislation reflect and confirm that provisions of the MOA between the province and the Union of British Columbia Municipalities concerning:
  1) jurisdiction of local government, with respect to land use and bylaw-making powers;
  2) the ability of local governments to make decisions as to whether or not new or relocated facilities will be permitted within their boundaries;
  3) the ability of local governments to direct and define the extent, scope and type of casino and bingo gaming permitted within their boundaries; and
  4) the ability of local governments to decide if slot machines or other similar devices could be placed within their boundaries.
- That the gaming legislation establish a Gaming Control Commission;
- That the gaming legislation confer authority on the Gaming Control Commission to receive, review and decide on relocation requests; to approve changes to existing facilities such as increases/decreases in the number of table games or slot machines and to resolve disputes and other matters as assigned by the minister.
- That the Minister announce an interim bridging policy with respect to relocation of and changes to existing facilities. The bridging policy should consist of the following components:
  1) the Minister should issue a statement indicating that the freeze is lifted and the date when this becomes effective;
  2) the Minister should issue a statement that the government remains committed to the specifics of the three memoranda of agreement signed in June 1999 with the Union of British Columbia Municipalities, the BC Associations for Charitable Gaming and the Charitable Bingo Association Committee of the Bingo Council of British Columbia;
  3) the Minister, while affirming the independence of the Gaming Commission for decisions with respect to specific bingo facilities, should direct the Gaming Commission to review its current processes and procedures for relocation of and changes to existing facilities to bring them in line with the Memorandum of Agreement with the Union of British Columbia Municipalities and the processes outlined in this report;

4) the Minister, while affirming the independence of the Lottery Corporation for decisions with respect to specific casinos, should direct the Lottery Corporation to review its current processes and procedures for relocation of and changes to existing facilities to bring them in line with the Memorandum of Agreement with the Union of British Columbia Municipalities and the processes outlined in this report;

5) since the freeze may have had different effects on individual service providers, especially with regard to outstanding applications for relocation of other changes, both the Gaming Commission and the Lottery Corporation should have the discretion to act expeditiously to process these applications. This process should respect the spirit and intent of the Memorandum of Agreement with the Union of British Columbia Municipalities and the processes outlined in this report;

6) to facilitate the transition, and in keeping with the memoranda of understanding referred to in (2) above, the minister or her delegate should meet with the Union of British Columbia Municipalities, the BC Association for Charitable Gaming and the Charitable Bingo Association Committee of the Bingo Council of British Columbia to brief them on the interim policy.

5. New Community Casino Operating Agreements

While destination casinos are given 10-year contracts, they must meet the Corporation's facility standards to receive approval.

All Community Casino operational service agreements expire May 31, 2000. New contracts will be negotiated with community casinos.

6. WCB Smoking Regulations

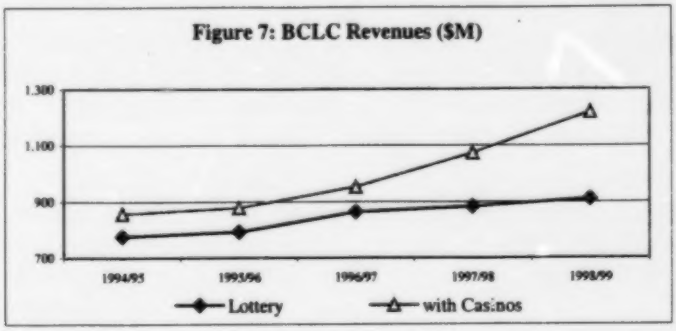
On January 1, 2000 WCB's smoking regulations took effect in all public facilities including pubs, bars, casinos and bingo halls. These regulations resulted in protests from owners of some of these facilities and appears to be having an impact on the Corporation's revenues for social gaming, casinos and bingo. Based on early financial results, the revenue impact could reach -15% in social gaming and -10% for casino and bingo, for a total negative impact of approximately $75 million.

7. New CEO

The former CEO of BCLC retired at the end of September, 1999 following more than 25 years of service in the lottery industry. Through an open search process, the former Vice President was selected to succeed him. The retirement of the previous CEO, the previous year's departure of the Vice-President responsible for Sales & Marketing and the selection of the Vice-President responsible for Finance, Administration and Information Systems to the Presidency, has left a void in executive management resources.

B. TO INCREASE LOTTERY REVENUE REQUIRES A FUNDAMENTAL CHANGE IN APPROACH

The lottery market continues to mature. Over the past few years, although the Corporation employed significant marketing and promotions effort, it has achieved only marginal annual growth. The Corporation's overall revenue growth came primarily from casino gaming (Figure 7). For 1999/00, the projected lottery sales of $907 million will be lower than the 1998/99 lottery sales of $910 million.



This flat revenue growth in lotteries is not unique to BCLC. Practically all revenue growth in Canadian jurisdictions over the last few years has come from expanded gaming

There are, however, potential growth areas in lottery gaming. To achieve this potential requires a fundamental change in the Corporation's approach to the lottery gaming market. In fiscal 2000/01 the Corporation will evaluate changes to its distribution channels and consider various product enhancements. By taking these initiatives, the Corporation expects to reverse the declining trend in lottery sales and is projecting an increase of $20.0 million or 2.2% for 2000/01.

C. THERE IS SIGNIFICANT REVENUE GROWTH POTENTIAL IN CASINO GAMING

Irrespective of Government's decision to end gaming expansion, there are significant revenue growth opportunities in casino gaming. Under the current government gaming policy, the primary growth potential lies in two areas:

- Relocation of community casinos to offer a full complement of products (up to 300 slots and 30 tables); and
- Implement the destination casinos Approved-in-Principle.

There are currently eight community casinos without slot machines located in the Lower Mainland and Victoria areas, the Province's largest gaming markets. In addition, a casino formerly located in the Red Lion Inn in Victoria is seeking to relocate to a facility that will allow it to operate to full capacity. Upon successful relocation of these casinos, up to 2,700 slot machines and 30 tables may be added. At an estimated net win of $300 per slot per day and $1,500 per table per day, these new facilities provide an opportunity for incremental revenues of $300 million annually.

In addition, new destination casinos in Penticton and Cranbrook have the potential for incremental annual revenues of $50.0 million.

D. STAKEHOLDER RELATIONS ARE CRITICAL TO THE CORPORATION'S CONTINUED SUCCESS

With the recent Government gaming policy decisions, the Corporation's external operating environment has become more challenging:

- Under the terms of the MOA with UBCM, the Corporation's revenue growth potential in casino gaming can only materialize if it receives full cooperation from local governments; and
- The recommendation of the Meekison Report to establish a Gaming Control Commission to oversee the casino relocation process would require the Corporation to work closely with the Commission to ensure that its business needs are being met. Decisions of the Gaming Control Commission on relocations and changes to casino facilities will impact on the Corporation's ability to make required business decisions to manage the marketplace.

The Corporation will look beyond operational matters in this complex, multiple-stakeholder gaming environment and devote an appropriate amount of effort and focus on stakeholder relations. Effectively managing stakeholder relations in the coming year is critical to the Corporation's continued success.

E. TO RECAPTURE THE PREVIOUS LEVELS OF PUBLIC SUPPORT IS DIFFICULT BUT ESSENTIAL

Prior to gaming expansion, the Corporation enjoyed a high level of confidence and respect from the public. Based on surveys conducted by Angus Reid as contained in its quarterly Reid Report, BCLC was repeatedly rated as one of the best managed corporations in BC.

The Reid Report measures corporate performance based on four criteria:

- Making a positive contribution to BC in the eyes of BC residents surveyed;
- A good listener;
- Believable; and
- Well managed.

The Corporation's "positive contribution" score has declined annually since a high of 81% in 1994 and reached a low of 65% in 1999 (Figure 13).

In the "good listener" category, the Corporation recovered from a low of 69% in 1998 and scored 73% in 1999 (Figure 14), 18 points higher than the average of Crown/Government organizations.

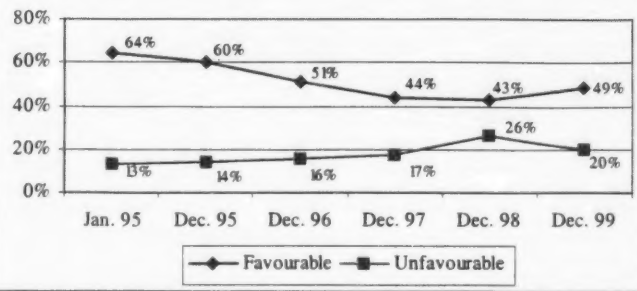
The Corporation's believability score improved slightly from a low of 50% in 1998 and is significantly higher than the norm of Crown Corporations. However, at 52%, it is 9 points below its high of 61% achieved in 1995.

The "well managed" score of 76% is 21 points higher than the average of Crown Corporations. However, it is the lowest score in the Corporation's history (Figure 16).

It is worth noting that the Corporation scored lower in the categories on what the Corporation does (Contribution to BC and Believability) and scored much higher in categories on how well the Corporation does them (Good Listener and Well Managed). The former is related, to a large extent, to the Corporation's mandate and Government policies. This underscores the need for the Corporation to not only act responsibly, but also to continue to provide input into Government policy decisions and communications programs.

The Corporation's own survey, Gaming Watch, showed a consistent decline in public image from 1995 to 1998. In 1999, a significant improvement was achieved. Gaming Watch measures two scores: Overall favourable impression of BCLC and overall unfavorable impression of BCLC. The favorable score improved from 43% to 49% and the unfavourable score improved from 26% to 20%. (See Figure 17).

Figure 17: The Corporation's Public Image Scores



F. THE CORPORATION CONTINUES TO PERFORM WELL OPERATIONALLY

Total revenues are projected at $1.4 billion. The Corporation is projecting net income of $531.0 million, $1.1 million greater than budget.

Lottery revenues were $907 million (99% of budget) despite fewer rollovers of 6/49 and Super 7 and the Government directive to not join the other ILC jurisdictions in the $100 price point for Mega Millions.

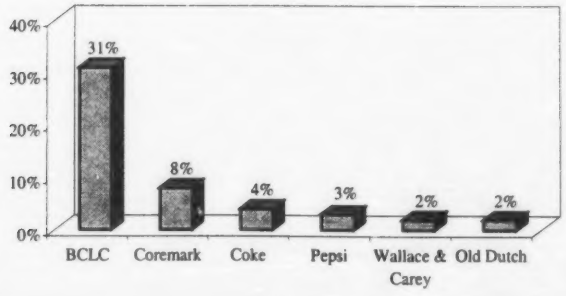
Due to a Government freeze on casino relocation, only one community casino in the lower mainland, Gateway Casino in Burnaby, was successfully relocated during the year. The opening of this casino generated a substantial amount of public and media interest.

One destination casino, the Royal City Star, was opened during the year. Two others were scheduled to open but, due to reasons beyond the Corporation's control, were delayed.

Irrespective of delays in the relocation of community casinos and delays to the opening of destination casinos, casino projected net win of $445 million exceeded budget by $14.5 million.

Lottery retailers continue to express high satisfaction regarding the Corporation's services. They again rated the Corporation, by a wide margin, as their best supplier (Figure 18).

Figure 18: % of Best Supplier Rating



The public, while displeased about the Corporation's involvement in the expansion of gaming, continues to have confidence in the way the Corporation manages its business, as evident in the Reid Report.

The Corporation's performance in 1999/00 is summarized in Appendix I: 1999/00 Performance Summary and in Appendix II: 1999/00 Program Implementation Summary.

G. THERE ARE WEAKNESSES AND THREATS THAT THE CORPORATION MUST OVERCOME

While the Corporation continues to perform well operationally, it needs to overcome certain weaknesses to realize the opportunities it faces in the coming year.

Organization Resources

There are three areas that have shown apparent weakness:

- The Executive Management void left by the retirement of the former CEO, the promotion of the former Vice President to CEO and the earlier departure of the former Vice President of Marketing and Sales;
- A person with significant knowledge of the casino industry at a senior level; and
- A senior resource person to address the issue of stakeholder relations and corporate communication issues.

Organizational Efficiency and Effectiveness

Over the last few years the Corporation has evolved from a lottery only business to a multi-faceted gaming organization. In fiscal 2000/01 the Corporation will establish an organizational structure that aligns the business to meet the market place requirements of lottery, casino, and bingo operations. In addition to organizational changes, the Corporation will initiate business improvement processes the focus on streamlining business operations.

5. 2000/2001 GOALS AND STRATEGIES

A. INTRODUCTION

Over the past few years, the Corporation has organized its goals and strategies by Corporate Objectives. In light of a review of the Corporation's directions and objectives, this year's goals and strategies will be aligned with the Corporation's business segments.

While recognizing the limitation of resources, the Corporation also recognizes the need to respond quickly and to overcome the challenges of the new gaming environment. The goals contained in this Business Plan are aggressive. However, with the drive to perform and succeed, the Corporation has also developed corresponding strategies to achieve these goals.

Objectives, strategies and performance measures are summarized in Appendix II.

B. CORPORATE

Introduction

The Corporate goals and strategies relate to a number of fronts:

- Operational performance including financial achievements;
- The continued development and implementation of Government policies;
- Public image and support; and
- Operational effectiveness.

As mentioned earlier in this document, although challenging, the Corporation is prepared to meet these goals.

Goals

- Achieve total sales of $1.43 billion;
- Achieve profit of $541.6 million;
- Contain operating expenses at $85.3 million or 5.9% of sales;
- Improve its Reid Report rating in all four categories;
- Achieve a "public acceptance" rating of 50% according to the Corporate Tracking Survey;
- Limit a negative "corporate impression" rating to 16% as per the Corporate Tracking Survey;
- Attract at least two candidates from diversity groups for 80% of external hires and for internal promotions;
- Ensure that at least 60% of qualified casino staff at destination casinos with First Nation's involvement, are First Nation's peoples;
- Maintain an employee turnover rate below 5%;
- Maintain an absenteeism rate of less than 3.5%; and
- Maintain an overall employee satisfaction rate of 95%.

Strategies

- Advise government in the development of gaming policy in British Columbia;

- Grow gaming revenues and profits by strategically managing growth in each of the business units;
- Become an organization that is more customer focused in all aspects of the business;
- Develop strategic partnerships to enhance revenue and image opportunities;
- Strategically utilize technology to maximize revenues within each of the business segments;
- Increase commitment and focus of research and development resources on new product and business development;
- Re-align the organization to meet the Corporation's expanded business needs;
- Focus resources on corporate programs and priorities as identified in the Business Plan;
- Implement business processes that improve the effectiveness of the organization;
- Project a consistent image of integrity and professionalism across all retailer networks;
- Improve corporate image;
- Improve stakeholder relationships by taking a more proactive and positive approach with all stakeholders;
- Promote and encourage stability in the BC gaming marketplace;
- Continue a strong communication plan with employees to ensure their awareness of diversity objectives;
- Provide services that meet the needs of a diverse public and retailer network;
- Build on the strengths of the existing organizational culture while supporting the development of a healthy culture across all business segments of the organization;
- Develop programs that encourage open and honest communication throughout the organization; and
- Develop and support greater participation and accountability from all employees.

C. LOTTERY GAMING

Introduction

In this business segment, the Corporation will begin its renewed approach to deal with the maturing of lottery gaming.

The goals outlined below include an increase in sales of 2.2%. Given the mature lottery market and the impact on sales resulting from the WCB smoking regulations, this is an aggressive sales target. Further increases can be anticipated in future years as the Corporation revamps its distribution approach including review of, and possible expansion to, its retailer networks.

Goals

- Achieve lottery sales of $927 million;
- Be rated by the LTC retailers as their best supplier in the province;
- Achieve a satisfaction rate of 90% or higher for the LTC and CKK networks;
- Protect the long term viability of Retail Sales Division retailers by ensuring that operators are compensated at comparable retail management levels;

- Achieve a player satisfaction rate for retailer services of 90% or higher for all retail distribution channels; and
- Achieve 99.95% availability for all gaming systems and equipment provided by the Corporation to each retail distribution channel.

Strategies

- Grow lottery revenues and profits through new product and marketing initiatives;
- Create a heightened winning experience among players;
- Move closer to the player; target marketing activities at existing players and at those that have a likelihood of becoming players;
- Seek new business opportunities through the application of technology;
- Improve market penetration of lottery products in the province of BC;
- Re-define business processes that enable the Corporation to deal more effectively and efficiently with retailers;
- Reward increased retailer sales and service performance through enhanced incentive programs;
- Re-evaluate the current distribution channels to ensure optimal availability of lottery products; and
- Improve the business partnership with the Lottery Ticket Centre and with Club Keno retailers.

D. CASINO GAMING

Introduction

While casino gaming has the greatest potential for future growth, it is also an area of transition in the coming fiscal year. The Corporation will address several areas related to casino gaming:

- The process for the relocation of, and changes to community casinos as recommended in the Meekison Report;
- Revenue improvements from existing casinos;
- Implementation of new destination casinos;
- Relocation of community casinos; and
- Improvement of operating standards, and the resolution of contractual issues with service providers.

Each of these activities will better position the Corporation to generate increased revenues and improve public image and support.

Goals

- Implement the Penticton destination casino; and
- Achieve a net win of $450 million.

Strategies

- Upgrade and relocate casinos to achieve quality facilities and profitable locations;
- Improve the business relationship with service providers;
- Implement marketing strategies and programs to augment the marketing of individual casino service providers and to reach potential out-of-province customers;

- Implement a Table Game System to improve control over table games operations;
- Implement upgraded Casino Operating Policies and Procedures to provide higher standards of gaming integrity and customer service; and
- Ensure a highly trained and motivated casino division staff.

E. BINGO GAMING

Introduction

While the Corporation's long term role in bingo is uncertain, the Corporation will continue to work to expand the number of electronic bingo facilities and to improve the cost effectiveness of the electronic bingo operating model.

The Corporation will also transfer the responsibility for bingo paper distribution to the BC Gaming Commission.

Goals

- Expand the number of Starship Bingo sites by 5; and
- Achieve bingo revenues of $53 million (an increase of 8%).

Strategies

- Grow bingo revenues and profits by increasing the number of electronic bingo locations and by implementing product enhancements;
- Develop electronic bingo products that maximize charity revenues with the objective of reducing the Government subsidy payment to charities
- Implement a more cost effective electronic bingo model;
- Ensure key stakeholders (charities and hall operators) understand the Corporation's role in electronic forms of bingo;
- Promote and encourage stability in the bingo marketplace; and
- Utilize the Corporation's role in electronic bingo as an opportunity to improve its relationship with charities and other key stakeholders.

6. FINANCIAL HIGHLIGHTS

BRITISH COLUMBIA LOTTERY CORPORATION
PROFORMA INCOME STATEMENT (in millions of dollars)
FISCAL 2000/01 BUDGET

	Fiscal 1998/99 Actual	Fiscal 1999/00 Budget	Fiscal 1999/00 Projection	Fiscal 2000/01 Budget
Sales				
Lottery	$910.6	$918.0	$907.3	$927.0
Casino	308.2	430.5	445.2	450.0
Bingo	42.7	51.5	49.0	53.0
Total Sales	**1,261.5**	**1,400.0**	**$1,401.5**	**$1,430.0**
Direct Expenses	699.1	752.3	746.8	761.6
Sales Less Direct Expenses	**562.4**	**647.7**	**654.7**	**668.4**
Operating Expenses	70.4	78.5	74.4	81.2
Amortization	18.8	19.4	19.8	20.2
GST	17.2	19.9	29.5	25.4
	106.4	**117.8**	**123.7**	**126.8**
Net Income	**$456.0**	**$529.9**	**531.0**	**$541.6**
Distribution of Net Income:				
Payments Pursuant to Ministerial Direction	$5.0	$4.0	$2.0	5.0
Provincial Charitable Pool	3.4	0	0	0
Federal Government	7.0	7.0	7.2	7.2
Provincial Government	440.6	518.9	521.8	529.4
Net Income	**$456.0**	**$529.9**	**$531.0**	**$541.6**

Appendix I: 1999/2000 Performance Summary

Objective	Goals/Measurements	Result	Comments
1. To maximize gaming revenue to the Province of British Columbia	• To achieve sales of $918 million in lottery gaming	No	Sales are projected to be $907 million
	• To achieve a net win of $430 million in casino gaming	Yes	Net win is projected to be $445 million
	• To achieve sales of $51 million in bingo gaming	No	Sales are projected to be $49 million
	• To achieve total sales of $1.4 billion	Yes	Total sales are projected to be $1.401 billion
	• To achieve a net income of $530 million	Yes	Net income is projected to be $531.0 million
2. To operate the Corporation in the most effective and efficient manner possible	• To achieve the stated sales and profit goals while containing operating expenses at $82.4 million or 5.9% of sales.	Yes	Projected operating expenses are $80.6 million, 5.7% of the projected sales
3. To be recognized as a responsible, trustworthy and progressive Corporation and to achieve strong and broad based support of the Corporation's mandate	• Public participation rate of 65% or higher as per the Corporate Tracking Survey	Yes	The rate was 66%
	• Public acceptance rating of 50% according to the corporate Tracking Survey Public	No	The rating was 49% in December and the average for the year was 48.8%
	• Limit negative corporate impression to 16% as per the Corporate Tracking Survey	No	The average was 19.8%
4. To have the best retailer networks in the Province of British Columbia to serve and meet the needs of our players	• To be rated by the LTC retailers as their best supplier in the Province	Yes	

Objective	Goals/Measurements	Result	Comments
	• To achieve a retailer satisfaction rate of 90% or higher for the LTC and CKK networks	Yes	LTC – 95% CKK – 82%
	• To achieve a player satisfaction rate for retailer services of 90% or higher for all retail distribution channels	Yes	
	• To achieve 99.95% availability for all gaming systems and equipment provided to each retail distribution channel by the Corporation.	Yes	
5. To foster an organizational climate that welcomes and values diversity within the organization and through the services it provides to the public and to its retailers	• To attract at least two candidates from diversity groups for 80% of external hires and internal promotions	No	Achieved 64% as candidates for casino positions are predominantly male
6. To seek to ensure that every employee is valued, professionally fulfilled and feels that they play an integral role in the success of the Corporation	• To maintain an employee turnover rate below 5%	Yes	2.9%
	• To maintain an absenteeism rate of less than 3.5%	Yes	1.6%
	• To maintain an overall employee satisfaction rate of 95%	Yes	95% in November, 1999 survey

Appendix II: Fiscal 2000/2001 Objectives, Strategies, and Performance Measures

OBJECTIVE	STRATEGY	PERFORMANCE MEASURE
1. To be a major advocate on Gaming Policy	• Actively participate in the development of gaming policy in British Columbia	
2. To maximize gaming revenue to the Province of British Columbia	• Grow gaming revenues by strategically managing growth in each business unit • Become an organization that is customer focused in all aspects of the business • Implement business processes that improve the effectiveness of the organization	• Sales of $1.43 billion • Profit of $541.6 million • Public participation rate of more than 65% • Gaming system availability of more than 99.95 %
3. To operate the Corporation in the most effective and efficient manner	• Realign the organization to meet the Corporation's expanded business • Focus resources on Corporate programs and priorities identified in the Business Plan • Implement business processes that improve the effectiveness of the organization	• Contain operating expenses at 5.9% of sales
4. To be recognized as a responsible, trustworthy and progressive Corporation and to achieve strong and broad based support of the Corporation's mandate	• Improve corporate image • Promote and encourage stability in the British Columbia gaming market place	• Pubic acceptance rating of more than 50% • Negative public impression of less than 15%
5. To have the best retailer networks in the Province of British Columbia to serve and meet the need of our players	• Project a consistent image of integrity and professionalism across all retailer networks	• Retailer satisfaction of more than 90% • Player satisfaction of more than 90%
6. To foster an organizational climate that welcomes and values diversity within the organization and through the services it provides to the public and to its retailers	• Continue a strong communication plan with employees to promote awareness and acceptance of the Corporation's diversity objectives • Provide services that meet the needs of a diverse public and retailer network	• At least two candidates from diversity groups for external hires and promotions

OBJECTIVE	STRATEGY	PERFORMANCE MEASURE
7. To seek to ensure that every employee is valued, professionally fulfilled and feel that they play an integral role in the success of the Corporation	• Develop programs that encourage open and honest communication throughout the organization • Develop and support greater participation and accountability from all employees • Build on the strengths of the existing organizational culture while supporting the development of a healthy culture across all business segments of the organization	• Employee turnover rate of less than 5% • Absenteeism rate of less than 3.5%